



**The Hong Kong & China Gas Co., Ltd. (3.hk)**  
incorporating  
**Towngas China Company Limited (1083.hk)**



**2014**

**Interim Results**

25 August 2014



# Disclaimer

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This presentation and subsequent discussion may contain certain forward-looking statements. These forward-looking statements reflect the company's view on some future events and involve known and unknown risks and uncertainties and other factors which may cause actual performance and development differ materially. Past performance cannot be relied on as a guide for future performance.



# Agenda

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- **Corporate & Results Overview**
- **Utilities**
- **Group Financials Review**
- **Conclusions & Outlook**



# Corporate & Results Overview

# Three Business Drivers

## HK Core (HC)



- HK City-gas
- Landfill Gas
- Bandwidth + Data Centre

## Mainland Utilities (MU)



- City-gas  
(0003.hk + 1083.hk)
- Mid Stream
- Gas Storage
- Clean Transportation Fuels
- Water Supply/Sewage

## New Energy (NE)



- COG to LNG
- CBM to LNG
- Clean Transportation Fuels
- Coal-based Chemicals
- Oil/Gas E&P
- Biomass to Fuels
- Aviation Fuel Storage

# 0003.HK Hong Kong & China Gas Co., Ltd.

(HK\$ Bn)	1H14	1H13	Change
Revenue (Excluding FCVC in HK)	14.83	12.16	+22%
Operating Profit After Tax	3.63	3.25	+12%
Exchange Gain/(Loss)	(0.28)	0.17	
IFC Revaluation Gain	0.26	0.13	
Profit Attributable to Shareholders	3.73	3.62	+3%
Earnings Per Share (HK cents)	35.4	34.4	+3%
Interim Dividend Per Share (HK cents)	12.0	12.0	

# 0003.HK Hong Kong & China Gas Co., Ltd.

## Operating Profit After Tax By Businesses

(HK\$ Bn)	1H14	1H13	Change
HK Core	1.57	1.49	+5%
Mainland Utilities	1.81	1.53	+18%
New Energy	0.25	0.22	+14%
<b>Total</b>	<b>3.63</b>	<b>3.25</b>	<b>+12%</b>

# 1083.HK Towngas China Co., Ltd.

(HK\$ Bn)	1H14	1H13	Change
Revenue	3.67	2.96	24%
Operating Profit After Tax	0.61	0.46	33%
Exchange Gain/(Loss)	(0.14)	0.07	
Profit Attributable to Shareholders	0.47	0.53	-12%
Earnings Per Share (HK cents)	17.90	20.51	





# Performance Overview

# HC



Town Gas Sales

↑ **4.1%**

**15,765TJ**



Total Customer

**+11,916\***

**1.81 Mn**

\* Compared with 2013 Year End



# Performance Overview

# MU



City-gas Sales  
Volume

↑ 17%

7.7Bn m<sup>3</sup>



Midstream Sales  
Volume

↑ 10%

1.7Bn m<sup>3</sup>



Total City-gas  
Customer

+1.0Mn\*

18.3Mn



City-water Sales  
Volume

↑ 2%

196Mn m<sup>3</sup>

\* Compared with 2013 Year End



# Performance Overview

# NE



Shanxi Jincheng  
Coalbed Methane  
Liquefaction

**+12%**

**117Mn m3\***



Inner Mongolia  
Coal-to-Methanol

**+8%**

**132k tons\***



Aviation Fuel Facility

**+4%**

**2.8M tons\***



CNG/LNG Refilling  
Stations

**44 Stations**



Thailand Oilfield

**+100%**

**4,000 BOPD**

\* 1H 2014 Production/Throughput Volume



**Zhangjiagang, Jiangsu**  
**Palm Oil Residue to Biofuel**  
120k tons Diesel, Mid 2015



**IM Coal to Methanol  
to Gasoline**  
140k tons Gasoline, 2014 Q4

# Moving Forward



**Xuzhou, Jiangsu**  
**COG to LNG**

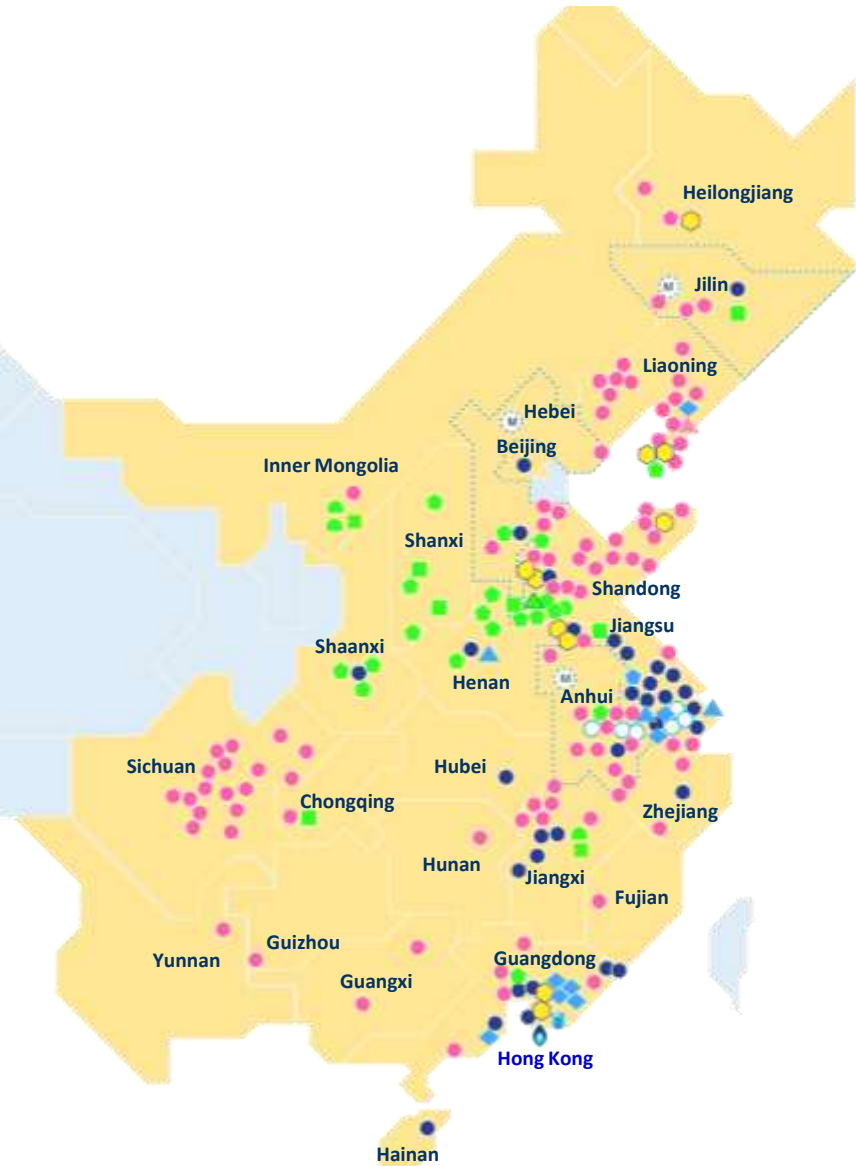
70k tons LNG, 2015 Q4



**Heze, Shandong**  
**COG to LNG**










80k tons LNG, 2015 Q4

# Businesses Profile



**19** projects added, total **192** projects  
in **24** provincial regions

## Utilities

City-gas	126	(HKCG: 33  + TCCL: 93  )
Midstream	8	   
Water & Sewage	6	
Refilling stations	2	 

## New Energy

Gas-based	6	
Coal-based	6	  
Refilling stations	20	

coal-mine    chemical plant    logistics

## Telecommunications

10



## Others

8



As of Jul 31, 2014



# Remarks on 1H 2014 Performance

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- ▶ Pleasing OPAT results against a slow global economy backdrop.
- ▶ PAT tarnished by unfavorable RMB exchange rate, but is likely transient.
- ▶ MU enjoys sustained gas consumption growth, urbanization continues to drive housing and gas demand.
- ▶ Keeping up with the new city gas project additions in the Mainland.
- ▶ NE is deploying several new energy conversion projects.
- ▶ Thailand Oilfield Project is materializing higher production output.



# Utilities: HK & Mainland China

Upwards Momentum



# Hong Kong Business Performance

# HC

**Profit**  
**After Tax**    **↑5%**  
**HK\$1.6Bn**

- Stable Business
- Fuel Cost Pass-through
- Gas Sales Volume: +4.1%

**Customer Gain**

**+11,916\***

**Total Customers**

**1.81Mn**

**Household  
Penetration**

**75%**

**Coverage**

**86%**

\* Compared with 2013 Year End





**Towngas China (1083.hk)**





# Towngas China (1083.hk) Highlights

**Operating Profit After Tax** **HK\$612Mn** **↑33%**



**Gas Sales Volume**

**↑13%**

**3.3Bn m<sup>3</sup>**

**Project Number**

**+8\***

**Total 95**

**Customer Number**

**+418,300\***

**8.9Mn**

\* Compared with 2013 Year End

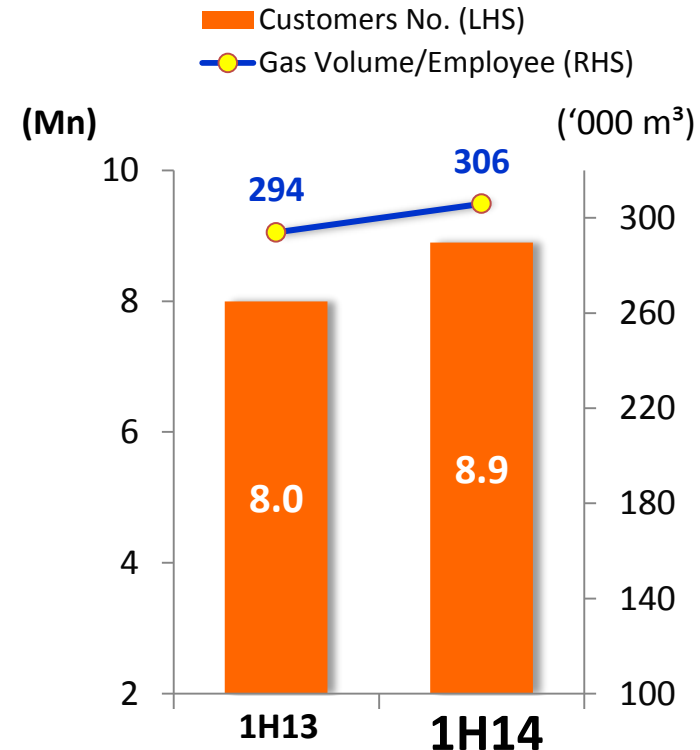
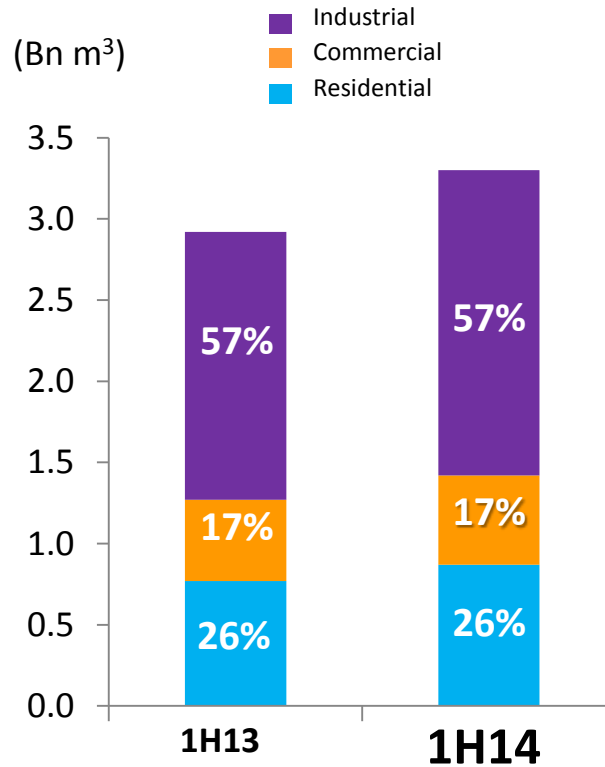
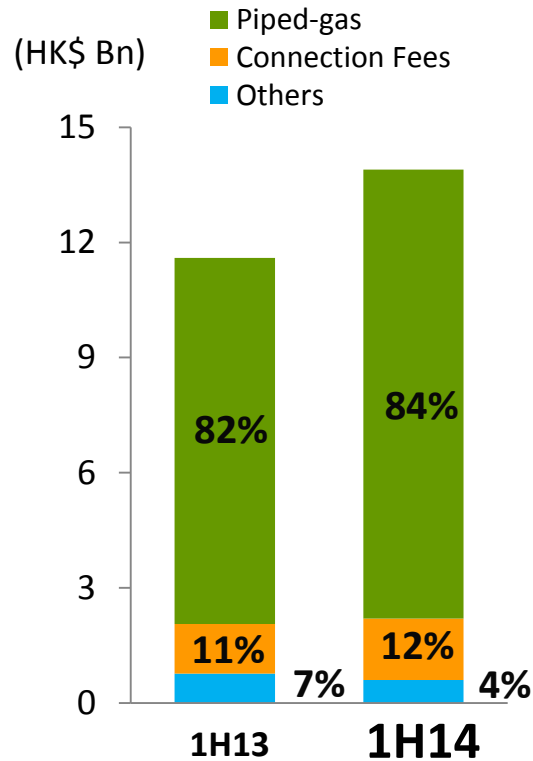


## Operating Highlights

### Turnover Mix (%) (All JV 100%)

### Sales Volume Mix (%)

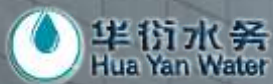
### Productivity





# Utilities: Mainland China

Upwards Momentum





# Mainland Utilities Performance

(Towngas China inclusive)



**Operating Profit After Tax** **HK\$1.8Bn** ↑ **18%**

## City-gas

## City-water

## Midstream-gas

Volume:

**+17%**

7.7Bn m<sup>3</sup>

**+2%**

196Mn ton

**+10%**

1.7Bn m<sup>3</sup>

Projects Number:

126 (+7\*)

6

8

Customers Number:

**+0.97Mn\***

18.3Mn

**+0.03Mn\***

1.0Mn

Refilling Station  
Volume:

**+5%**

131Mn m<sup>3</sup>

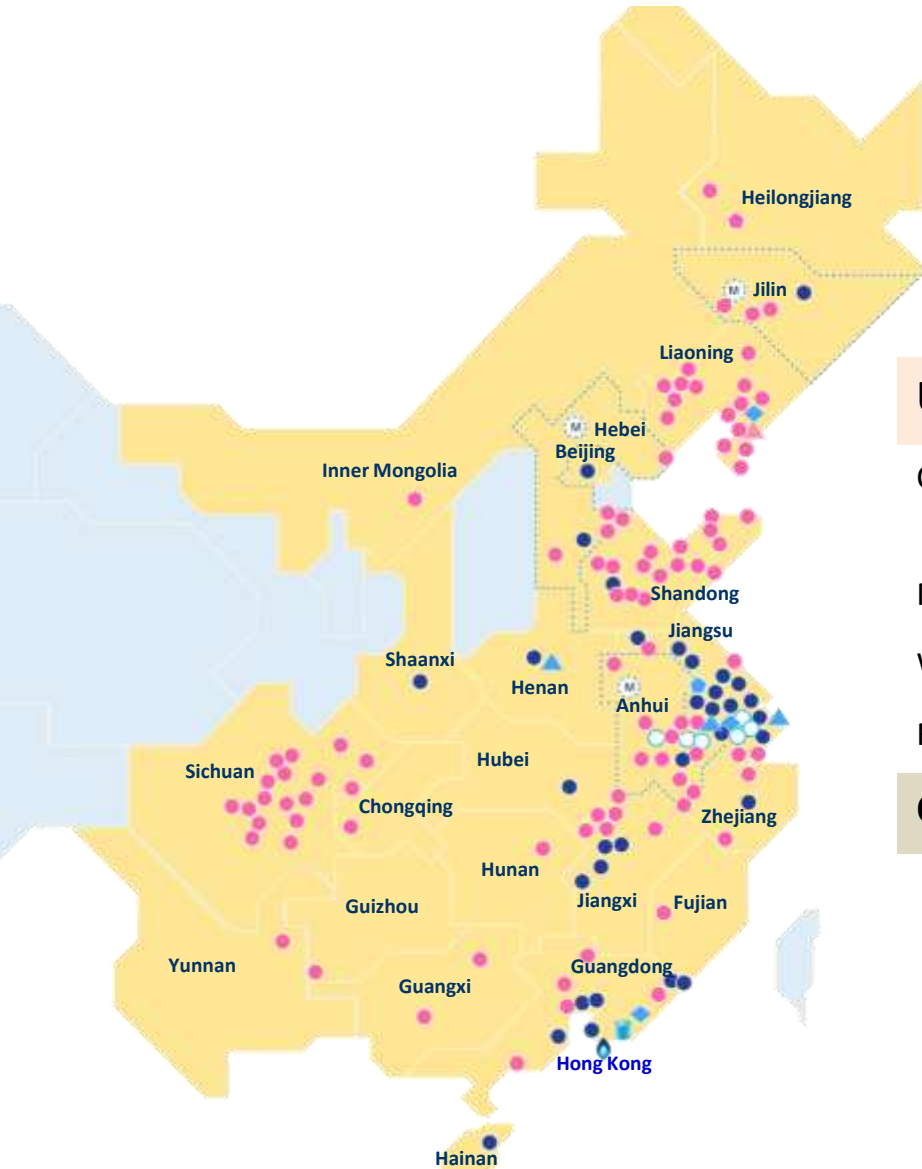


\* Compared with 2013 Year End



# Territorial Coverage

As of Jul 31, 2014



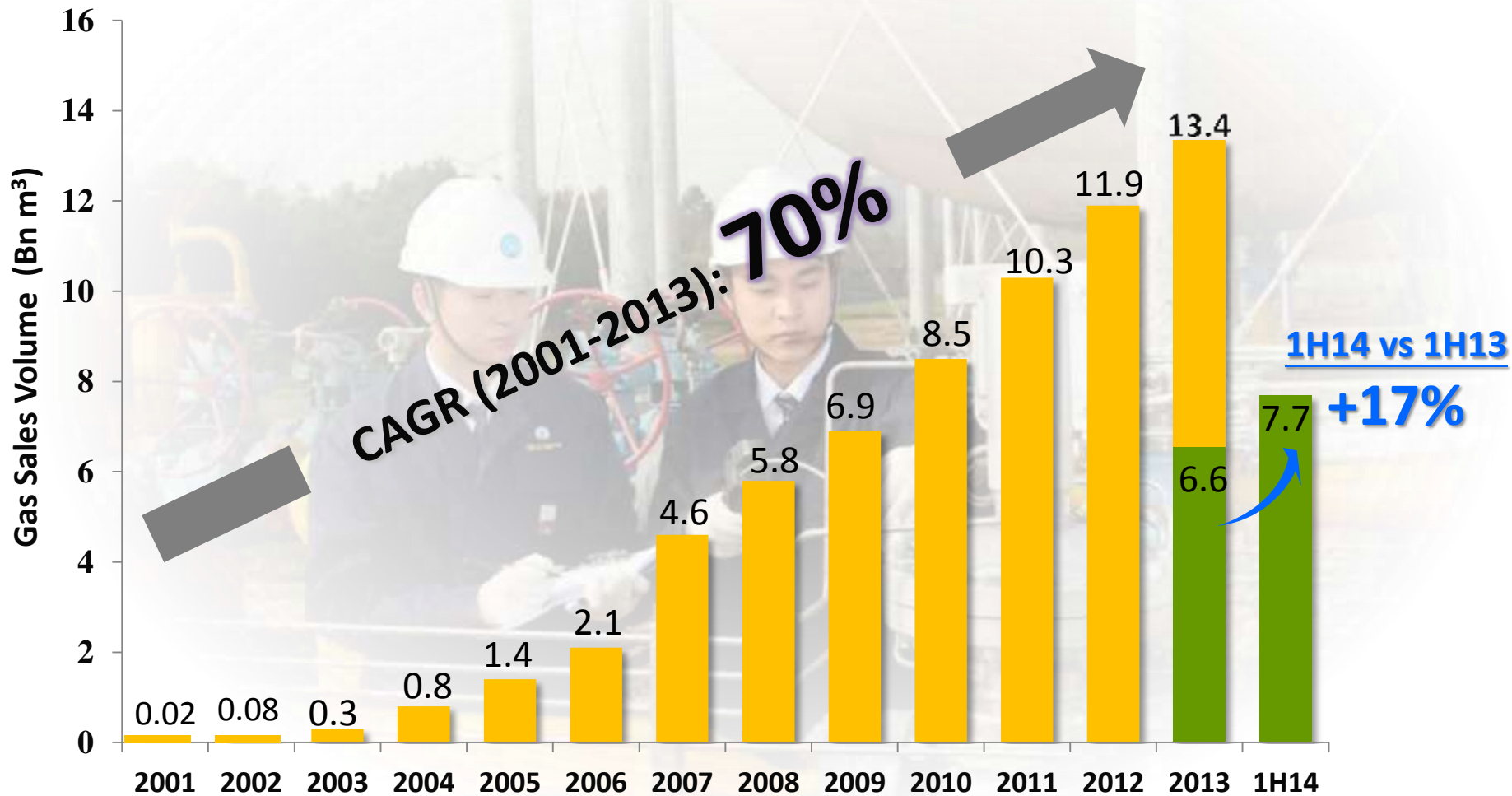
9 projects added, total **145** projects in **23** provincial regions

## Utilities

City-gas	126 (HKCG: 33 ● + TCCL: 93 ●)
Midstream	8
Water & Sewage	6
Refilling stations	2
Others	3

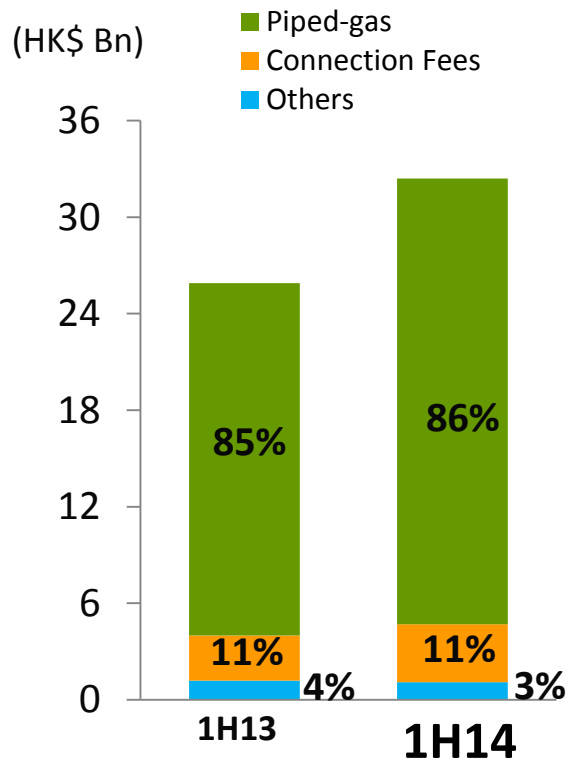


## Growing Gas Sales Volume All JVs (100%)

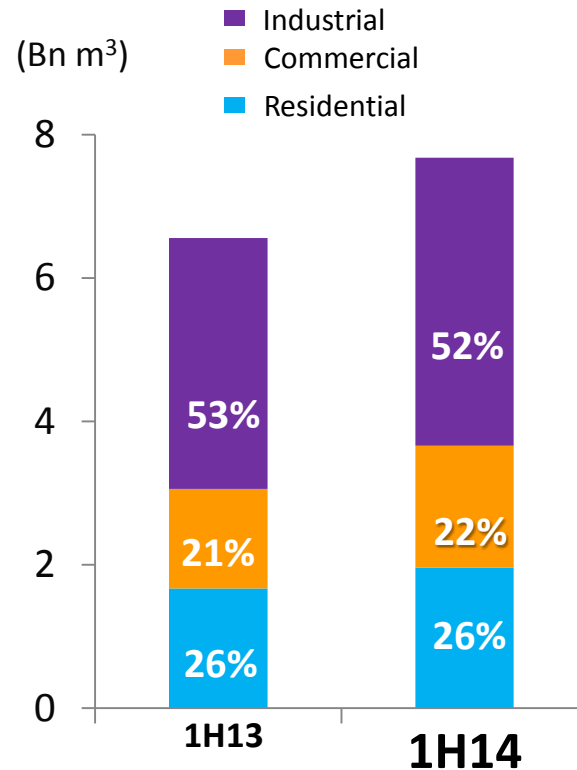




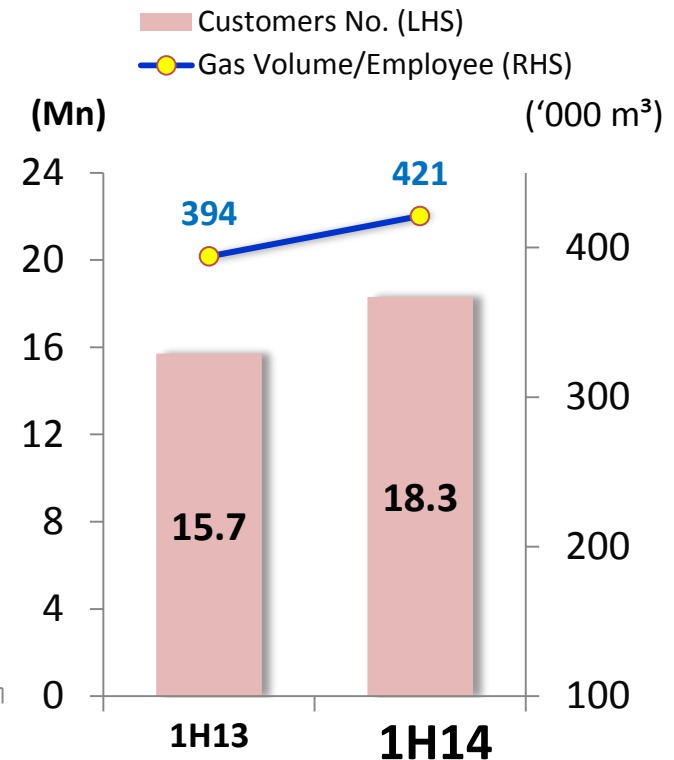
### Turnover Mix (%) (All JV 100%)



### Sales Volume Mix (%)



### Productivity







# Mainland Utilities Segment Results **MU**

1H14

Total  
Turnover

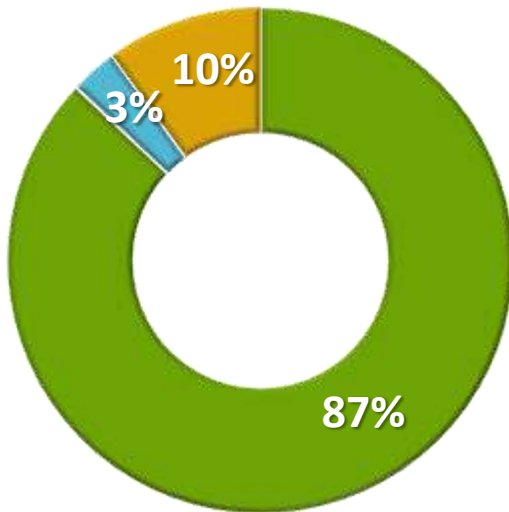
**+25.3%** ↑

**HK\$ 37.1Bn**

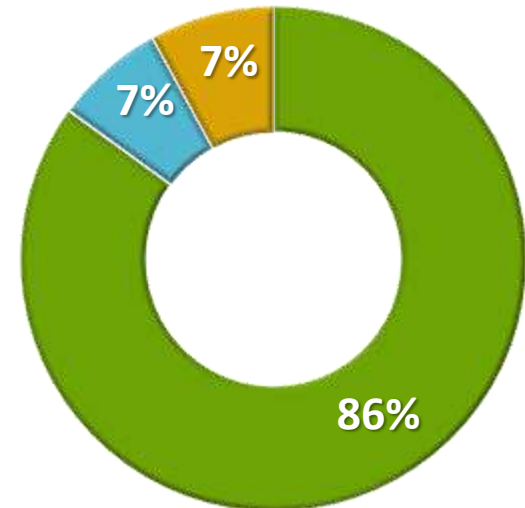
Shared Profit  
Before FX Difference

**+18%** ↑

**HK\$ 1.8Bn**



- City-gas
- Water
- Midstream



\* Turnover: All JVs (100%)



# 2<sup>nd</sup> NG Gate-Price Adjustments

- ▶ Effective 1 September 2014
- ▶ Affect Non-residential customers
- ▶ Maximum Rmb0.4/m<sup>3</sup> on Existing Gas Volume
- ▶ 75 JVs Affected out of 126
- ▶ Around 18% gas volume affected in 2014





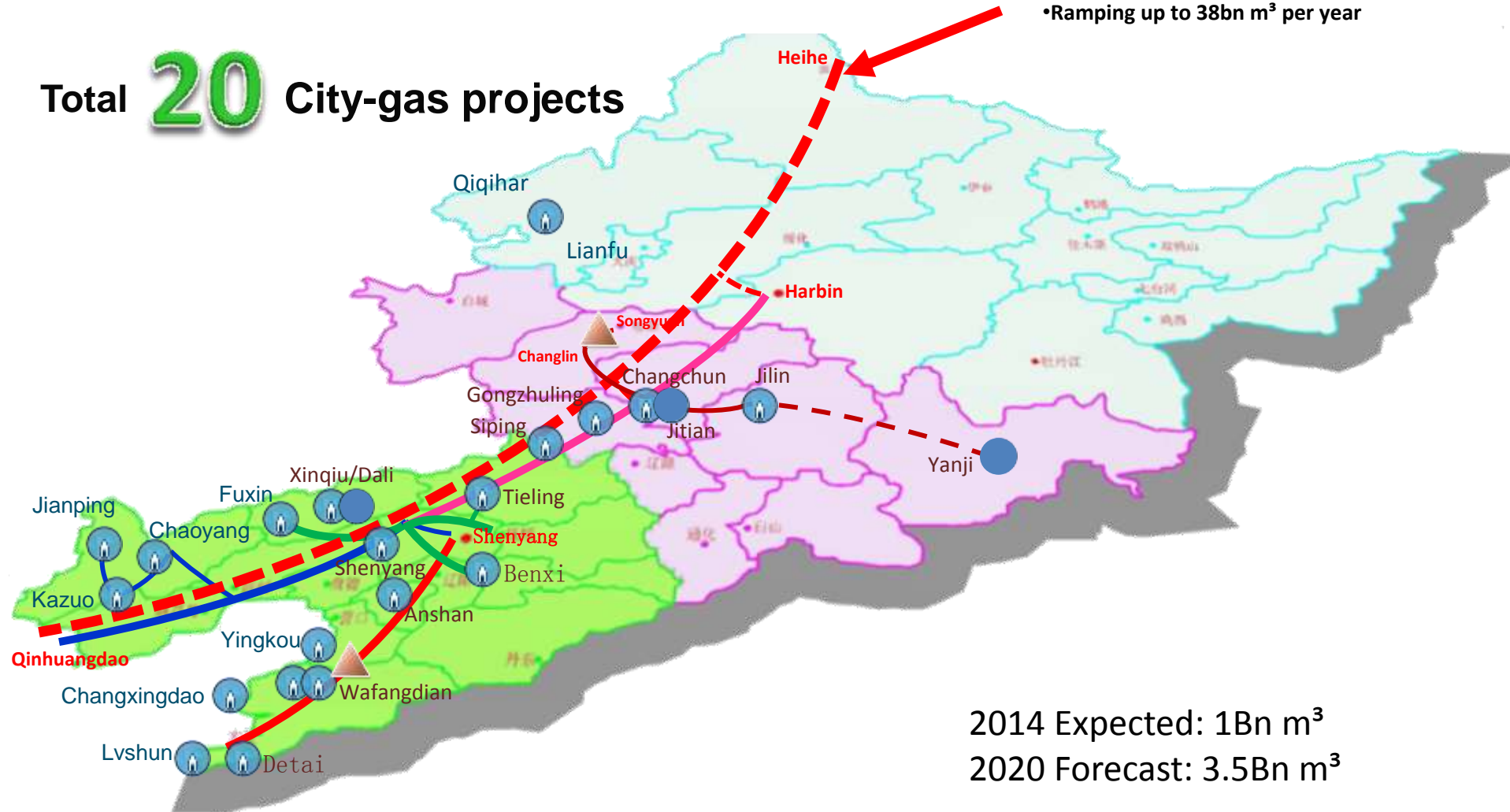
# Sino-Russian Gas Supply

## Northeastern China Welcoming the Russian Gas

### Russian Gas

- Expected arrival in 2018
- Ramping up to 38bn m<sup>3</sup> per year

Total **20** City-gas projects



2014 Expected: 1Bn m<sup>3</sup>  
 2020 Forecast: 3.5Bn m<sup>3</sup>



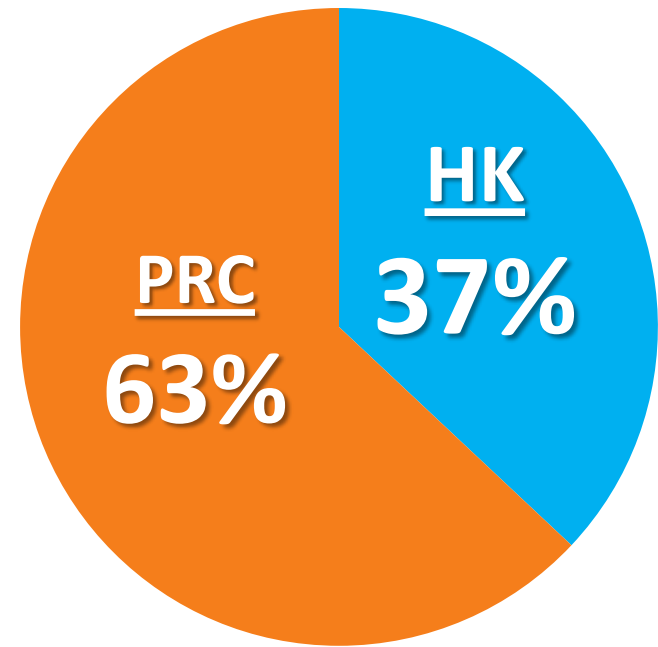
# Group Financial

Sustainable Growth

# Consolidated Revenue

## 1H14 Revenue (HK\$ Bn)

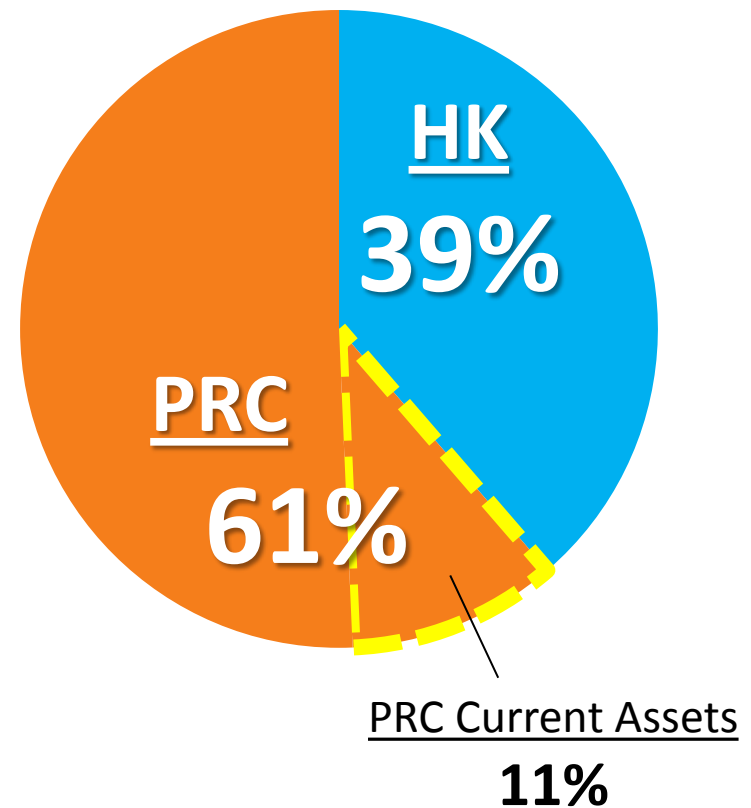
HK	PRC	Total
5.9	9.9	15.8
(+5%)	(+31%)	(+20%)



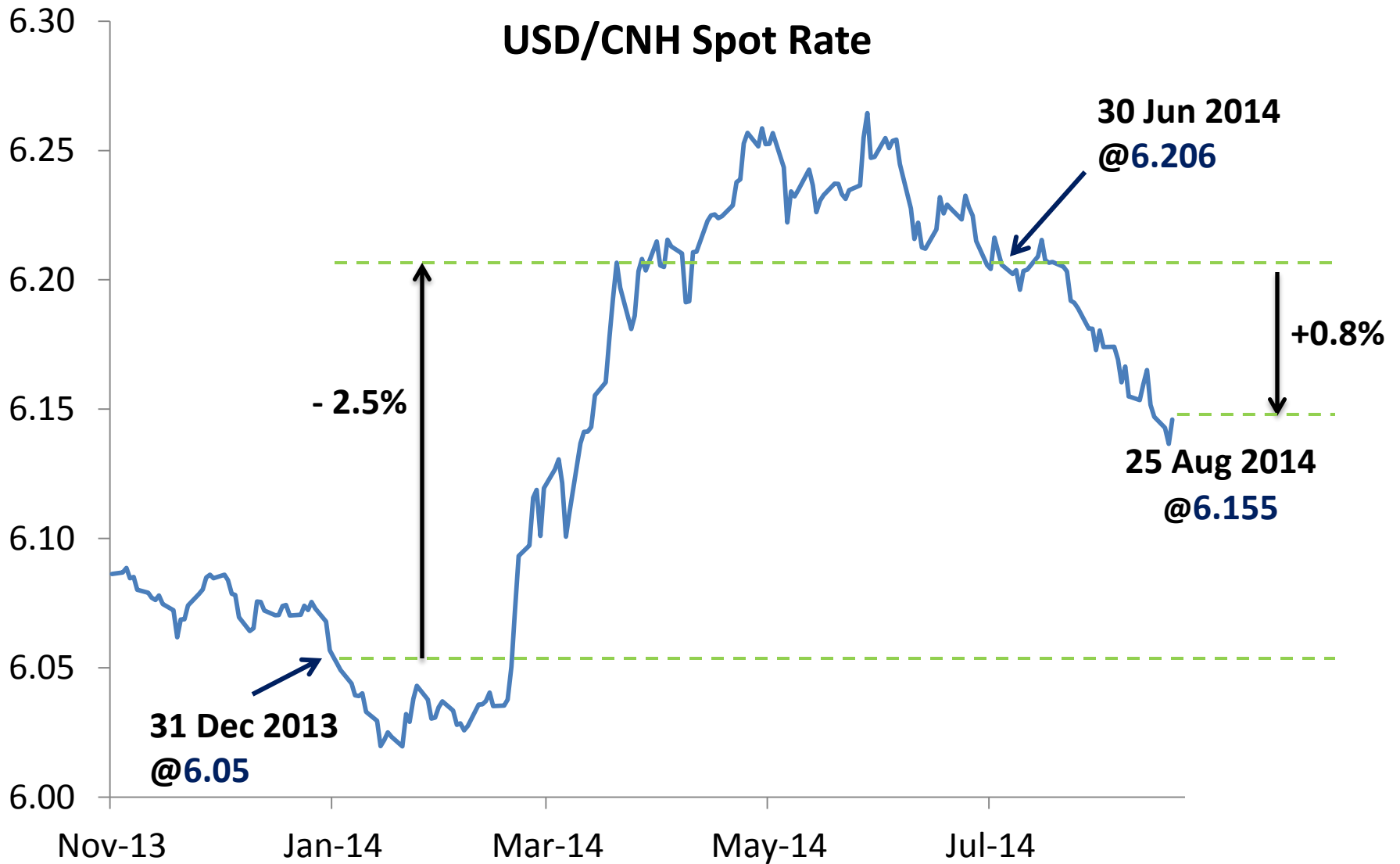
# Consolidated Total Assets

## 1H14 Assets (HK\$ Bn)

HK	PRC	Total
42.8	67.9	110.7



# RMB vs USD Trend



# RMB FX Rate Forecast

Bank	End of 2014 (Forecast) (as at 30 April)	End of 2014 (Forecast) (as at 28 Jul)	End of 2014 (Forecast) (as at 19 Aug)	Change Comparing to End of 2013
Royal Bank of Scotland	5.88	5.86	5.86	3.1%
Bank of America	6.10	6.00	6.00	0.8%
Credit Agricole CIB	6.00	6.00	6.00	0.8%
Nomura	6.00	6.05	6.05	0.0%
Mizuho	6.05	6.05	6.05	0.0%
Bank J. Safra Sarasin	6.05	6.05	6.05	0.0%
Mitsubishi Bank UFJ	6.06	6.06	6.06	-0.2%
Standard Chartered Bank	6.04	6.09	6.09	-0.7%
Citi	6.08	6.10	6.11	-0.7%→-1.0%
Commonwealth Bank of Australia	6.085	6.10	6.10	-0.8%
Credit Suisse	6.10	6.13	6.13	-1.3%
Morgan Stanley	5.91	6.11	6.14	-1.5%
HSBC	6.14	6.14	6.14	-1.5%
JP Morgan Chase	6.05	6.15	6.15	-1.7%
ANZ	6.08	6.15	6.15	-1.7%
BNP	6.20	6.20	6.20	-2.5%
Barclays	6.07	6.22	6.22	-2.8%
Rabobank	6.28	6.29	6.29	-4.0%
Daiwa	6.50	6.50	6.50	-7.4%
<b>Average :</b>	<b>6.07</b>	<b>6.12</b>	<b>6.12</b>	<b>- 1.2%</b>

**Average Forecast  
(End of 2014)  
6.12**

\* USD/CNY Spot: 6.05 as at 31 Dec 2013



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(HK\$ Bn)	1H14	1H13	Change
Profit Attributable to Shareholders	3.73	3.62	3%
IFC Revaluation Gain	0.26	0.13	
Exchange Gain/(Loss)	(0.28)	0.17	
<b>Underlying Business PAT</b>	<b>3.75</b>	<b>3.32</b>	<b>13%</b>

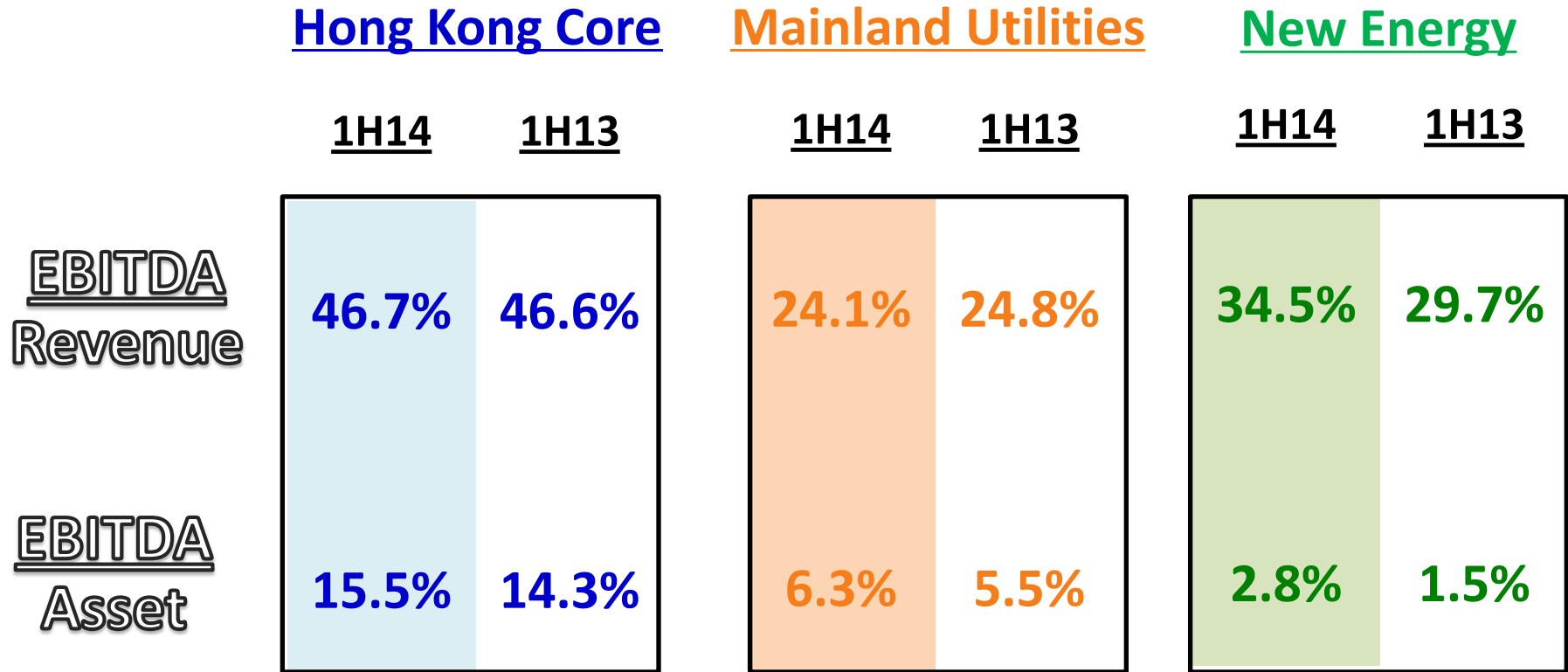


# 1083.HK Towngas China Co., Ltd.

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(HK\$ Bn)	1H14	1H13	Change
Profit Attributable to Shareholders	0.47	0.53	-12%
Exchange Gain/(Loss)	(0.14)	0.07	
<b>Underlying Business PAT</b>	<b>0.61</b>	<b>0.46</b>	<b>33%</b>

# Underlying Business Margins



# Strong Financial Position

As at 30 June 2014,

Cash on hand  
**HK\$12.8Bn**  
(+2.6bn)

Current Ratio  
**129%**  
(113%) as at Dec 2013

Net Asset Value  
**HK\$59.9Bn**  
(+3.5bn)

Total Assets  
**HK\$110.7Bn**  
(+4.3bn)

# Leverage



**HKCG (0003.hk)**



**TCCL (1083.hk)**

**Interest Coverage**

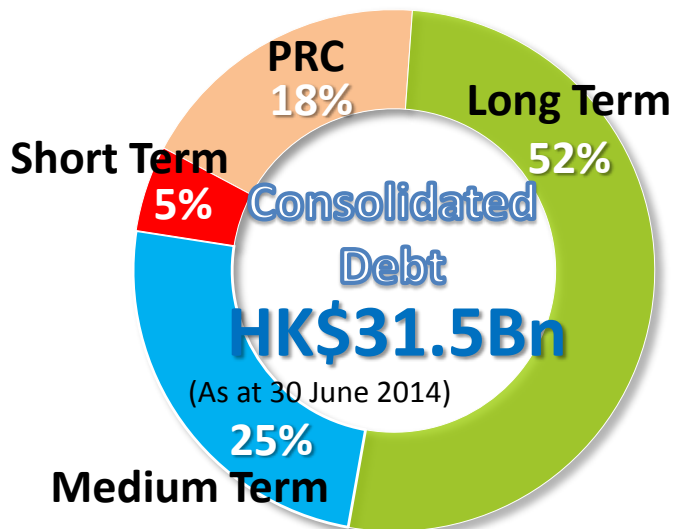
**10.4x**

**11.3x**

**Gearing**

**26.1%**

**24.2%**



**Avg. Tenor**

**8.4yrs**

**Avg. Interest**

**3.8%**

# Diversified Funding Sources

Credit  
Ratings

STANDARD  
& POOR'S  
RATINGS SERVICES

MOODY'S

 煤氣  
Towngas  
**HKCG (0003.hk)**

 港華燃氣  
Towngas China  
**TCCL (1083.hk)**

**A+**

**BBB**

**A1**

**Baa2**

**Positive  
Outlook**

MTN Notes  
(AUD,JPY,HKD)  
10-40 Years

Perpetual  
Securities

Dim Sum  
Bond  
5-Year

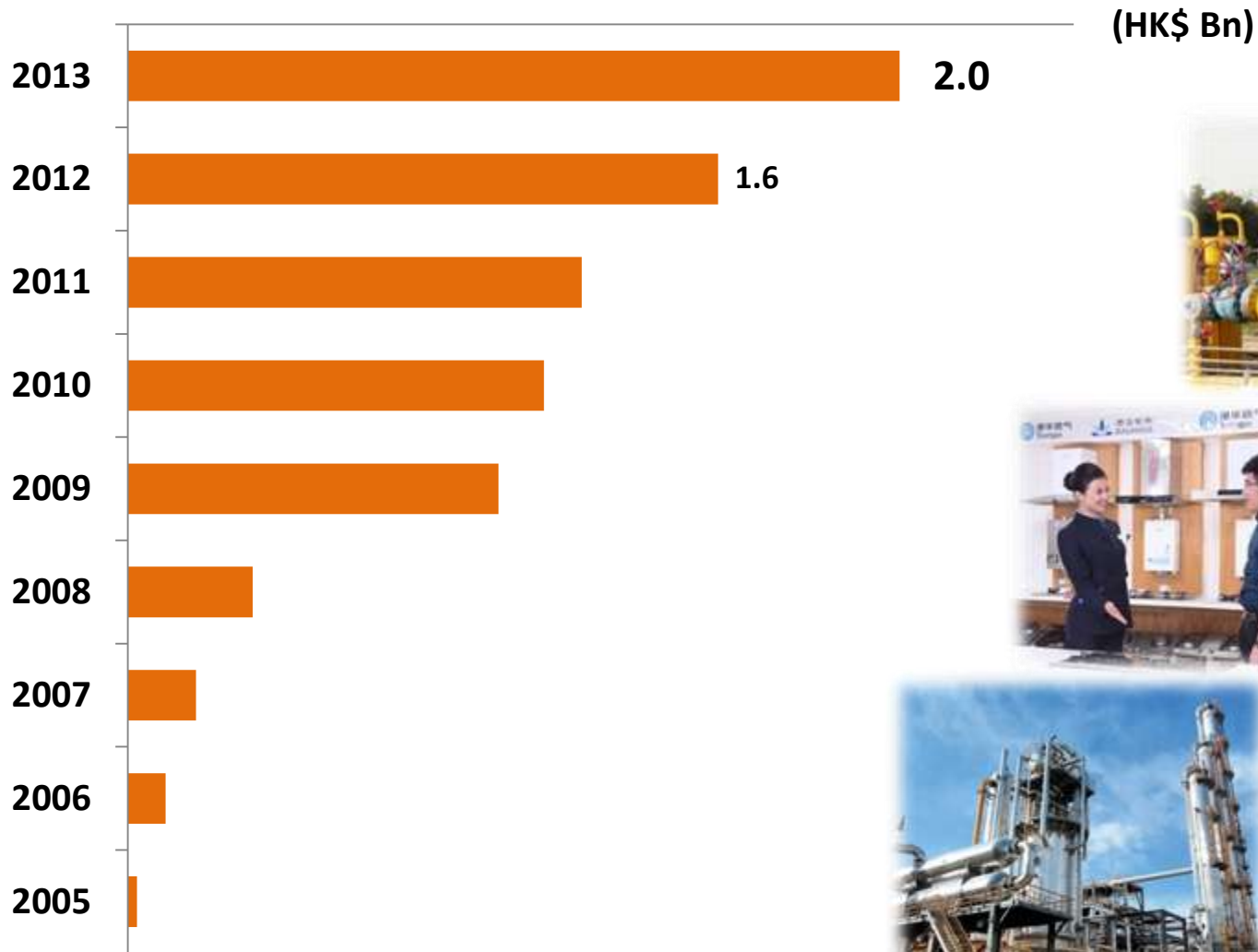
USD Bond  
144A

Bilateral  
Bank Loan

Medium Term  
Bilateral  
Bank Loan  
1 - 5 Years

Syndicated  
Loan


# Strong Dividend from PRC





# Rolling 3-Year Cashflow Projection

## Healthy Cashflow

(HKD Bn)		Group Operation	13
		PRC Dividends Distribution	7
			<b>20</b>

(HKD Bn)		Dividend	12
		New Investment	10
			<b>22</b>

(HKD Bn)		Shortfall - Finance by Cash on Hand	<b>2</b>
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# Outlook

Expanding New Horizons



**Massive  
Agricultural,  
Industrial &  
Residential  
Waste**



**Immense  
Population**



**Urbanization**



**Rich Coal Reserve,  
Lacking Oil & Gas**

# China's Energy Outlook



**Growing  
Economy**



**Severe  
Pollution**



**High  
Oil & NG  
Import**



**No. 1  
Automobile  
Market**



**World's  
Manufacture  
Base**



# Policies and Directions

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- Myanmar gas supply to Southwest China
- Russian gas supply to Northeast China in 2018
- 20+ additional LNG receiving terminals planned to be built
- Natural gas supply reform
  - ▶ Integrated gas pipeline infrastructure
  - ▶ Third party access
  - ▶ Natural gas trading platform



# Policies and Directions (Cont.)

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- ▶ Promote LNG vehicles/vessels
- ▶ Encourage indigenous alternative fuel supplies
- ▶ Encourage innovations, R&D
- ▶ Distributed energy centres shall enhance gas sales
- ▶ Gas consumption forecast increase 74% to 400Bn m<sup>3</sup> (2016-2020)



# NE Strategies

# NE

## Low Value Feedstock



**Industrial waste**



**Agricultural waste**



**Food waste**



**Coal**



**CBM**

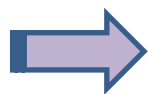
## Process

- **Efficient & Clean Processes**
- **Self-developed Technologies**
- **Scalable & Multipliable**
- **> 25% IRR**
- **< HKD800Mn/Project**

## High Value Product

- **LNG**
- **Synthetic Natural Gas**
- **Liquid Auto Fuels**
- **Chemicals**

**Clean Energy**



**Reduce**

**PM 2.5**

**CO<sub>2</sub>, SO<sub>2</sub>**

**Crude consumption**



# Looking Forward

NE



- NE energy projects highly scalable & multipliable.
- First wave NE project construction period in 2014 to 2015. Full-year profits to be realized in 2016.
- More projects earmarked for 2015-2016 period.
- NE projects payback in 4-5 years.
- Cash flow generated post 2016 will fund future projects.



# Looking Forward

# HC & MU

- 
- ▶ Hong Kong housing supply will almost double.
  - ▶ Mainland housing supply growth continues due to urbanization.
  - ▶ Price reform may momentarily impact NG demand growth.
  - ▶ Rising labour costs become a concern.

# Our Targets (2014-2019)



**HK Gas Business** remains as a stable, low growth, cash generating operation.

Operation efficiency is the key.

More green energy sources, e.g. landfill gas.



**Mainland City-gas Business** is projected to continue having mid growth.

Capturing gas markets is the key.

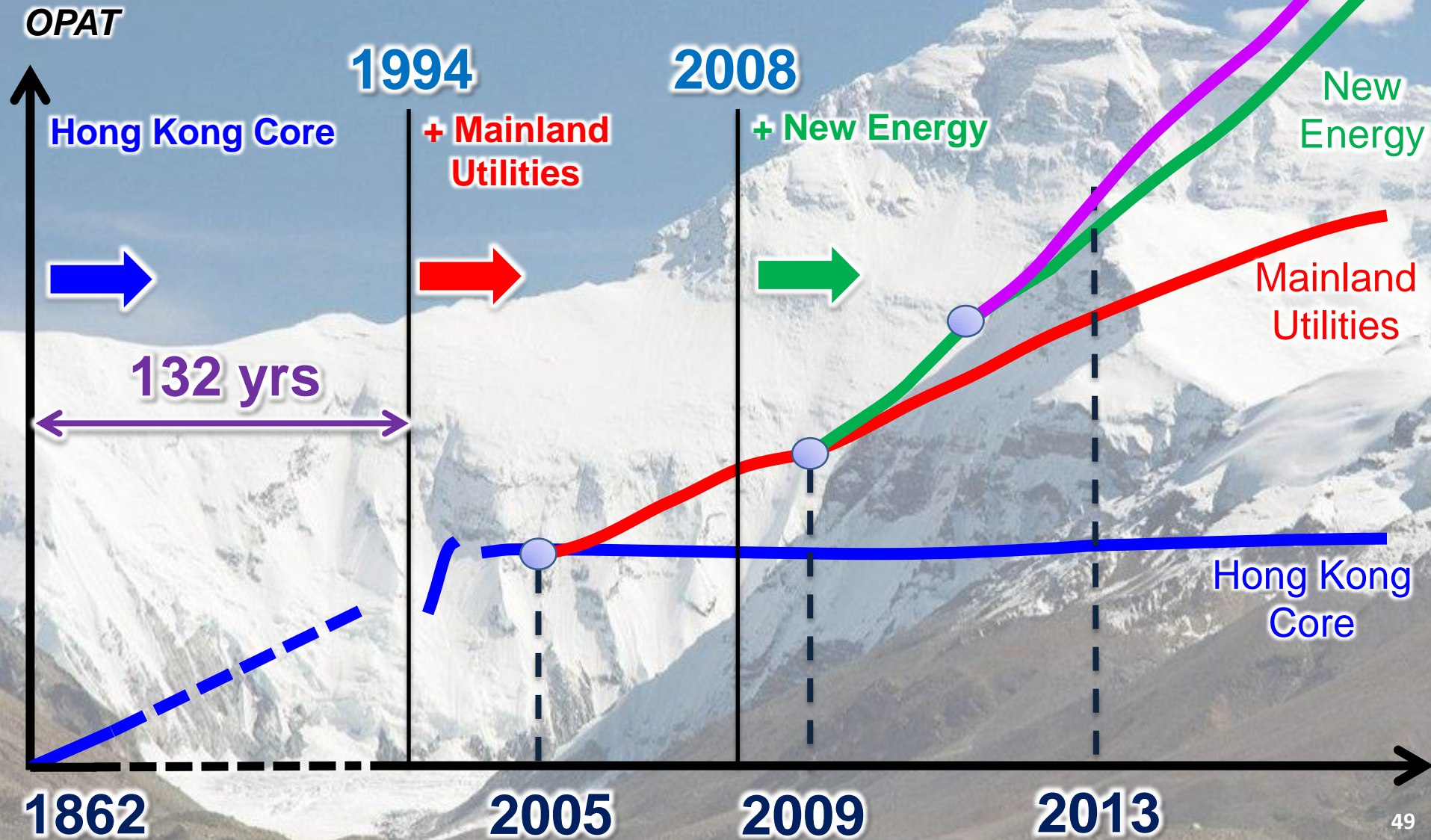


**New Energy Business** is positioned to deliver high growth.

Developing and applying high efficiency technologies in energy transmutation is the key.



# Sustaining Growth



- ✓ *We are in the Right* **Trades**
- ✓ *We are at the Right* **Time**
- ✓ *We are in the Right* **Region**